



State of Vermont

AGENCY OF HUMAN SERVICES

OFFICE OF THE SECRETARY

103 South Main Street
Waterbury, Vermont 05671-0204

Mr. Robert Aaronson
Director, Division of Cost Allocation
Department of Health and Human Services
26 Federal Plaza, Room 41-122
New York, NY 10278

Dear Mr. Aaronson:

The purpose of this letter is to update the Division of Cost Allocation (DCA) on the progress to date with the Agency of Human Services (AHS) re-organization that began on July 1, 2004. This letter also serves as an explanation to the attached cost allocation plan submissions.

We have included updated cost allocation plan submissions for the Department of Aging and Independent Living (DAIL), the Office of Vermont Health Access (OVHA), the Agency of Human Services (AHS) Central Office, and the Vermont Department of Health (VDH). For each of these plans, we have included a copy of the previously submitted narratives (minor changes are outlined below) and a full set of cost allocation plan reports as described below. Please note that AHS is in the process of “converting” all cost allocation plans to the new, and same, format so that all of the plans will be prepared similarly going forward. These reports detail costs pools, allocation methods, and the costs allocated to each benefiting objective at each department. We have provided them this quarter for OVHA, AHS, and VDH (please see information specific to VDH below). Next quarter we will provide the new reports for DAIL. In the paragraphs below we have included additional information on these submissions.

For the Department for Children and Families (DCF), we have included a revised cost allocation plan narrative effective October 1, 2004. As agreed to on our phone conversation on December 15, 2004, we will submit a cost impact statement and a full set of cost allocation plan reports by January 31, 2005. This extension is necessary in order for us to obtain the financial data for the October – December quarter so that we can provide you with the financial reports.

In terms of cost impact statements, we have included side by side cost impact statements for AHS Secretary’s Office and OVHA. We can include these because the functions, to date, at the Secretary’s Office have not been greatly impacted by the reorganization and because the creation of OVHA only served to move functions from the former PATH into the new office. DAIL, VDH, and DCF have undergone such change that we are unable to complete side by side revenue comparisons at this time. While we do not believe that federal revenues will be greatly impacted, we are still in the process of developing an agency-wide cost impact statement to demonstrate the impact. We will be able to provide this impact statement when all of the cost allocation plans have been created. We do believe that the provision of cost allocation reports will allow you to review how costs are grouped and allocated to benefiting objectives (final receivers).

An explanation of the status of each Department's plan is contained below.

AHS (Secretary's or Central Office)

We have submitted a second copy of the narrative submitted in September; an updated narrative effective October 1, 2004; and a full set of new cost allocation plan reports; and a cost impact statement that shows variances between the previous cost allocation plan and the revised version.

The updated narrative includes very minor changes. The most significant change is the addition of the Investigations Unit, which is new to the agency. Any revenue impact as a result of this addition will be outlined in a future submission.

The main change with regard to AHS, effective July 1, 2004 forward, is that additional costs are now being included in the cost allocation process – either for new functions or for costs that previously were not part of the cost allocation plan. These changes are indicated on the attached cost impact statement, yet do not impact revenue. At this point, the reorganization has not had a significant effect on the Secretary's Office, though we do anticipate more changes to occur over the next six months.

OVHA

We have submitted a copy of the narrative effective July 1, 2004, a full set of cost allocation reports, and a cost impact statement that shows the costs related to OVHA for the first quarter of FY2005 as compared to the results of the revised cost allocation plan. The cost allocation reports detail the costs that were incurred by OVHA in the first quarter of FY2005 and how they were allocated. The cost impact statement indicates that there are no substantial changes in Medicaid claiming as a result of the creation of OVHA. We will submit an agency-wide AHS revenue estimate, as we mention above, that will show the net impact to all Medicaid claiming when that information is fully available.

DAIL

For DAIL, we have submitted a revised narrative for the quarter ending September 30, 2004. These changes were necessary as a result of new grants that were added to the Department during this quarter. We have also submitted a revised narrative for the quarter ending December 31, 2004 that has one change in allocation methodology from the previous narrative to change how complaints for nursing and residential care homes are allocated to Medicaid. Additionally, this narrative includes the plan department numbers that will be implemented with the update CAP effective October 1, 2004.

We have also submitted the cost allocation plan that was prepared for the quarter ending September 30, 2004 and shows the former Developmental Services activities that are now a part of DAIL. Despite the combination, there have been minimal effects to revenue, especially related to costs that are allocated to grants. There are no new allocation methodologies in use, except for the one described above that will be in effect as of October 1, 2004. Additionally, no services have been added or deleted and as a result the net impact in Medicaid claiming will not be significant. Any changes will be indicated on the AHS agency cost impact statement that we will submit at a later date.

VDH

We have updated the narrative format, and submitted a new narrative effective July 1, 2004. This matches the previous narrative, but it is now in the AHS-wide format. Please note that there are

several items in the narrative that do not appear in the cost allocation reports. These are related to cost pools that did not have costs in the first quarter of FY2005. We are in the process of reviewing these codes to determine which should be removed permanently.

We will also provide a full set of cost allocation reports by January 10th. Aside from the merger of the former Mental Health Division and VDH, there are no major changes to this cost allocation plan and no methodologies have changed. Going forward, a full benefiting objectives report will be part of the VDH CAP, so that costs allocate to all benefiting objectives, not just those claimed to federal sources, can be reviewed. As with DAIL and DCF, we will demonstrate the cost impact as part of the AHS-wide cost impact statement.

DCF

As mentioned above, we have included the narrative for DCF that will be effective beginning October 1, 2004. It details each cost pool incurred by DCF and how each cost will be allocated. A full set of cost allocation reports and information regarding the financial impact will be submitted by January 31, 2005. Please note that in some cases on the narrative the program codes appear multiple times; we are in the process of splitting program codes where appropriate to reflect the new organizational structure. We are also in the process of securing final organizational charts for DCF and will forward them to you as soon as they are available.

Once again, we appreciate your assistance with this process. If you have any questions, please do not hesitate to contact Ira Sollace at (802) 241-2949.

Sincerely,

Charles Smith
Secretary
Agency of Human Services

cc: Ira Sollace
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